

VZCZCXYZ0001  
PP RUEHWEB

DE RUEHLP #0123/01 0182014  
ZNY CCCCC ZZH  
P 182014Z JAN 07  
FM AMEMBASSY LA PAZ  
TO RUEHC/SECSTATE WASHDC PRIORITY 2100  
INFO RUEHAC/AMEMBASSY ASUNCION 6461  
RUEHRL/AMEMBASSY BERLIN 0117  
RUEHBO/AMEMBASSY BOGOTA 3784  
RUEHBR/AMEMBASSY BRASILIA 7659  
RUEHBU/AMEMBASSY BUENOS AIRES 4910  
RUEHCV/AMEMBASSY CARACAS 2153  
RUEHCP/AMEMBASSY COPENHAGEN 0211  
RUEHPE/AMEMBASSY LIMA 2240  
RUEHMD/AMEMBASSY MADRID 3266  
RUEHMN/AMEMBASSY MONTEVIDEO 4348  
RUEHNY/AMEMBASSY OSLO 0120  
RUEHQT/AMEMBASSY QUITO 4793  
RUEHSG/AMEMBASSY SANTIAGO 9382  
RUEHSM/AMEMBASSY STOCKHOLM 0163  
RUEHTC/AMEMBASSY THE HAGUE 0744  
RHMFISS/HQ USSOUTHCOM MIAMI FL  
RUMIAAAA/USCINCSO MIAMI FL  
RUEHUB/USINT HAVANA 0090  
RHEHNSC/NSC WASHINGTON DC  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHINGTON DC

C O N F I D E N T I A L LA PAZ 000123

SIPDIS

SIPDIS

STATE FOR WHA/AND  
STATE FOR EB/IFD  
TREASURY FOR SGOOCH

E.O. 12958: DECL: 01/18/2017  
TAGS: [EAID](#) [ECON](#) [EFIN](#) [BL](#)  
SUBJECT: IFI'S CONCERNED ABOUT POLITICAL TRENDS IN BOLIVIA

REF: A. LA PAZ 80  
[1](#)B. 2006 LA PAZ 1936  
[1](#)C. 2006 LA PAZ 3361

Classified By: Acting Ecopol Councilor Brian Quigley for reasons 1.4 (d)  
) and (e).

-----  
Summary  
-----

[1](#)1. (C) World Bank Resident Representative Connie Luff told the Ambassador on January 12 that the Bank has maintained a good relationship with the GOB, although the Bank is concerned about the government's increasing interference in key economic sectors. In a January 17 meeting with Econoff, representatives from the International Financial Corporation, the Inter-American Development Bank, and the Andean Development Corporation noted that they had had varying success in supporting private sector development, in part because of this increasing state interference. However, all of the representatives agreed that the GOB's main problems are political, not economic. They expressed concern for the future of democracy, while noting that the GOB had maintained macroeconomic stability, exercised fiscal restraint, and solved the hydrocarbons fiasco reasonably in 2006 (ref C).  
End summary.

-----  
World Bank Program Background  
-----

[1](#)2. (C) World Bank Resident Representative Connie Luff told the Ambassador on January 12 that the World Bank is operating

under an interim two-year strategy, under which it is providing concessional lending of USD 80 million for investment projects for the two years. To date the Bank has had fairly good relations with the GOB, partially due to the USD 1.5 billion of debt relief granted in 2006. However, Luff expressed concern about the GOB's increasing interference in the telecommunications, electricity, and microfinance (septel) sectors.

-----  
IFIs Have Varying Success Supporting Private Sector  
-----

13. (C) Because of the increasing interference in key sectors, social protests, and just plain bad business luck, the international financial institutions (IFI's) have had varying success supporting the private sector, which they described in a January 17 meeting with Econoff. International Finance Corporation (IFC) Representative Marcene Broadwater noted that the IFC's private sector loans were going fairly well, but that she was concerned about its investments in the mining sector with the Swiss company Glencore, which bought former President Gonzalo "Goni" Sanchez de Lozada's mining interests. The Inter-American Bank Resident Representative Joel Branski lamented that many of the IDB's private sector loans had run into trouble, including Aguas de Illimani (water company whose contract was recently rescinded by the GOB after years of social protest, in which the World Bank had also invested - ref A), Transredes (IDB placed its loan to the gas pipeline operator on hold after the GOB announced plans to take over majority ownership - ref B), and AXS (a U.S.-invested telecommunications company that defaulted on its IDB loan). Andean Development Corporation (CAF) Representative Jose Carrera noted that CAF lending is focused on infrastructure projects, like roads, electricity, and water and sanitation, but said that it did intend to provide private sector support to agro-businesses this year.

14. (C) Although the World Bank Resrep told the Ambassador that the GOB's plan to replace Aguas de Illimani with a state-run water provider does not make sense, the CAF and IDB representatives said they would likely support the GOB's water efforts if the GOB presented them a reasonable, sustainable plan. The IDB Resrep said that considering the tremendous social pressure to remove the private water company Aguas de Illimani (ref A), the GOB had handled the issue fairly well and the IDB felt sufficiently compensated.

-----  
It's All About Politics  
-----

15. (C) Although the World Bank Resrep expressed concern about increasing state interference in key economic sectors, all of the IFI representatives agreed that the GOB's main problems are political, not economic. The IDB Resrep expressed concern about democracy's future, threatened by GOB actions against the judiciary and local governments, attempts to centralize power, and instigation of conflicts. The World Bank Resrep echoed those concerns and feared the possibility of balkanization. She expressed concern that German, Dutch, and Scandinavian governments were funding irresponsible NGOs that were contributing to conflict, often without the governments knowing exactly to what they were contributing. On the economic side, the IFI representatives agreed that the GOB should be judged by its actions, not its rhetoric, because it had not done anything "crazy" in 2006, but had rather showed concern for macroeconomic stability, exercised fiscal restraint, and solved the hydrocarbons fiasco reasonably (ref C).

-----  
Comment  
-----

16. (C) Although the GOB's economic performance to date has been surprisingly good -- six percent fiscal surplus, record

trade statistics, and approximately 4.6 percent GDP growth in 2006 -- long-term growth will depend on political stability, judicial security, and the country's ability to attract investors, who may be deterred by the government's rhetoric.  
End comment.  
GOLDBERG